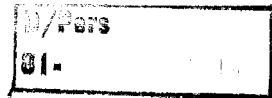


CONFIDENTIAL

Approved For Release 2005/07/12 : CIA-RDP86-00964R000200070026-1




10 August 1981

MEMORANDUM FOR: Director of Personnel

VIA: Inspector General *CAB*

FROM:


Chief, Audit Staff

SUBJECT: Report of Audit, Government Employees
Health Association, Inc., For the Period
1 January 1980 - 31 December 1980

1. Subject report is attached. Please advise me of the action taken on the recommendations contained in the report.

2. We appreciate the cooperation and assistance provided by your staff during the audit.



25X1

Attachment:
As stated

Distribution:

Orig. - D/OP
✓ 1 - C/Board of Directors
1 - SA/DDCI
1 - D/Fin
1 - O/Compt/BMG

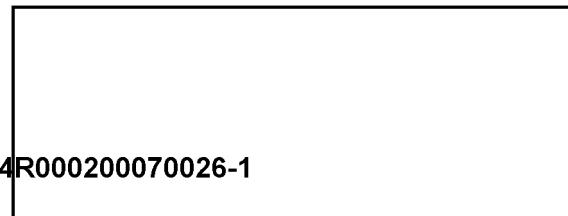
25X1

WARNING NOTICE
SENSITIVE INTELLIGENCE SOURCES
AND METHODS INVOLVED

Approved

For Release 2005/07/12 : CIA-RDP86-00964R000200070026-1

CONFIDENTIAL



REPORT OF AUDIT
Government Employees Health Association, Inc.

For the Period
1 January 1980 - 31 December 1980

SUMMARY

1. The Government Employees Health Association, Inc. (GEHA) continues to be administered in an efficient manner. Administrative controls, procedures and records were generally effective and in accordance with applicable requirements. Three of the prior year audit recommendations concerning investment performance have not been completely resolved. These are briefly commented on again in this report, along with a recommendation to strengthen control over bond interest. Other administrative matters were discussed with responsible officers and resolved during the audit.

SCOPE AND OPINION

2. We have examined the GEHA statement of financial position as of 31 December 1980 and the related statements of changes in reserve fund balances and changes in financial position. The examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and other auditing procedures, including a review of claim settlement procedures by GEHA, as we considered necessary under the circumstances.

3. In our opinion, the attached financial statements, Exhibits A,B, and C, present fairly the financial position of GEHA at 31 December 1980 and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

BACKGROUND

4. GEHA is a tax-exempt organization incorporated in the District of Columbia to administer employee insurance programs in accordance with Agency operational and security requirements. An elected Board of Directors prescribes GEHA operating policies. The daily business is conducted by the Insurance Branch of the Benefits and Services Division in the Office of Personnel. GEHA reimburses the Agency for the services of 31 of the 44 employees in the Insurance Branch.

25X1 5. GEHA maintains [] insurance accounts for active and retired employees. The following plans are in effect:

25X1

CONFIDENTIAL

Approved For Release 2005/07/12 : CIA-RDP86-00964R000200070026-1

PLANS

ACCOUNTS

Life Insurance:

United Benefit Life Insurance Company

Active
Retired

Worldwide Assurance for Employees
of Public Agencies

Health Insurance:

Association Benefit

Active
Retired

Contract Hospitalization

Specified Diseases

Disability Insurance:

Income Replacement

Accidental Death and Dismemberment
Insurance:

Flight and Accident

Travel Insurance:

Air Flight

Military Air Flight

25X1

Approved For Release 2005/07/12 : CIA-RDP86-00964R000200070026-1

CONFIDENTIAL

DETAILED COMMENTS

Investment Performance

6. The prior report of audit contained several recommendations concerning management of GEHA's investment portfolio by BEA Associates, an investment management firm. GEHA management has dealt with several of the issues raised and is working on the three recommendations not yet resolved. A report submitted by a consultant, hired to review GEHA's investment portfolio management, is scheduled for discussion at the GEHA Board of Directors meeting in August 1981. We repeat those recommendations not yet cleared.

Recommendation #1: That the GEHA Board of Directors reevaluate and document GEHA's investment objectives.

Recommendation #2: That the GEHA Board of Directors consider whether dealing through other investment broker(s), adopting an alternate means of handling investments, might be more advantageous than current arrangements, and that it document both the decisions and the basis on which they are made.

Recommendation #3: That the GEHA Board of Directors establish a written policy concerning the holding of fixed income securities which have declined in current market value but are yielding a high rate of return, and that the policy determined be issued as mandatory guidance to any entity executing investment decisions on behalf of GEHA.

Interest Income Records

7. GEHA accounting records and procedures do not provide assurance that bond interest is received when due. Controls should be established by posting date and voucher number for receipt of bond interest on the appropriate page of the bond investment subsidiary ledger, similar to dividend postings in the stock subsidiary ledger.

Recommendation #4: Establish records to assure that bond interest is received when due.

CONFIDENTIAL

Approved For Release 2005/07/12 : CIA-RDP86-00964R000200070026-1

Exhibit A

Government Employees Health Association, Inc.
Statement of Financial Position
31 December 1980 and 1979

<u>ASSETS</u>	<u>1980</u>	<u>1979</u>
Cash	\$454,446	\$392,465
Investments (Notes 1 and 2)	4,426,411	3,863,674
Claims Receivable	80,137	141,709
Contingent Assets:		
Funds Withheld by Underwriter	154,666	154,666
for Specified Policyholders	(154,666)	(154,666)
Less: Reserves	2,312	-
Equipment (Net of Depreciation)		
Total Assets	<u>\$4,963,306</u>	<u>\$4,397,848</u>

<u>LIABILITIES AND RESERVES</u>		
Accounts Payable	\$6,796	\$63,361
Prepaid Premiums	180,357	94,843
Accrued Salaries	24,543	15,343
Accrued Dependent Premiums	<u>16,804</u>	<u>15,149</u>
Total Liabilities	228,500	188,696
Reserves (Exhibit B)	<u>4,734,806</u>	<u>4,209,152</u>
Total Liabilities and Reserves	<u>\$4,963,306</u>	<u>\$4,397,848</u>

Note 1: Investments are recorded at cost. Market value at 31 December 1980 was \$4,250,700 and at 31 December 1979 was \$3,681,200.

Note 2: In April 1981 \$1,843,300 of investments were sold at a loss of \$407,000.

Approved For Release 2005/07/12 : CIA-RDP86-00964R000200070026-1

CONFIDENTIAL

CONFIDENTIAL

Approved For Release 2005/07/12 : CIA-RDP86-00964R000200070026-1

Exhibit B

Government Employees Health Association, Inc
Statement of Changes in Reserve Fund Balances
For the Year Ended 31 December 1980

	<u>Total</u>	<u>UBLIC Investment in Common Stock</u>	<u>UBLIC General</u>	<u>Association Benefit Plan</u>	<u>Air Flight Plan</u>	<u>Contract Hospital- ization</u>	<u>General Fund</u>
Balance, 1 January 1980	<u>\$4,209,152</u>	<u>\$345,412</u>	<u>\$3,382,519</u>	<u>\$317,551</u>	<u>\$29,743</u>	<u>\$69,227</u>	<u>\$64,700</u>
Increases:							
Premiums Withheld from or Returned by Underwriter	851,785		449,902	392,795	764	8,324	
Investment Income	348,000	74,585	260,783		2,297	5,359	4,976
Miscellaneous	<u>1,305</u>						<u>1,305</u>
Total Increases	<u>1,201,090</u>	<u>74,585</u>	<u>710,685</u>	<u>392,795</u>	<u>3,061</u>	<u>13,683</u>	<u>6,281</u>
Decreases:							
Salaries	398,150		18,143	378,107	380	1,520	
Premiums for UBLIC Dependent Coverage	37,705		37,705				
Loss on Sale of Investments	189,134	28,820	152,907		1,347	3,142	2,918
Investment Fees and Expenses	42,903	12,919	28,597		252	588	547
Miscellaneous	<u>7,544</u>		<u>292</u>				<u>7,252</u>
Total Decreases	<u>675,436</u>	<u>41,739</u>	<u>237,644</u>	<u>378,107</u>	<u>1,979</u>	<u>5,250</u>	<u>10,717</u>
Balance, 31 December 1980	<u>\$4,734,806</u>	<u>\$378,258</u>	<u>\$3,855,560</u>	<u>\$332,239</u>	<u>\$30,825</u>	<u>\$77,660</u>	<u>\$60,264</u>

Approved For Release 2005/07/12 : CIA-RDP86-00964R000200070026-1

CONFIDENTIAL

CONFIDENTIAL

Approved For Release 2005/07/12 : CIA-RDP86-00964R000200070026-1

Exhibit C

Government Employees Health Association, Inc.
Statement of Changes in Financial Position
For the Year Ended 31 December 1980

Resources Provided by:

Sale of Investments	\$7,833,556
Claims Reimbursed by Underwriters:	
Hospitalization	8,801,721
Death	355,812
Premiums from Policyholders	1,229,977
Premiums from Underwriters	851,785
Interest Income	273,415
Dividend Income	74,585
Other Income	1,305
	<u>\$19,422,156</u>

Resources Applied to:

Purchase of Investments	\$8,585,427
Claims Paid to Policyholders:	
Hospitalization	8,740,126
Death	357,666
Premiums Paid to Underwriters	1,182,168
Salary Paid	398,150
Investment Fees and Expenses	42,903
Decrease in Accounts Payable	43,879
Increase in Cash	61,981
Purchase of Equipment	2,890
Miscellaneous	6,966
	<u>\$19,422,156</u>

Approved For Release 2005/07/12 : CIA-RDP86-00964R000200070026-1

CONFIDENTIAL